PART II

ALLIANCE STORIES

CHAPTER THREE

SUSTAINABLE SUPPLY CHAINS

RAISING STANDARDS, BUILDING TRADE

With help from the U.S. Agency for International Development (USAID), multinational corporations are working with local producers to raise agricultural productivity and improve quality standards for commodities such as cocoa, coffee, and forest products. In so doing they are assuring stable supplies of high-quality products and predictable returns for growers. This chapter looks at four examples of how such alliances have paid off by emphasizing higher productivity, sound agricultural marketing, sustainable environmental practices, and certification programs that deliver better value for buyers.

Each alliance is built on the strong interests and commitments of the partners and the communities in which they work. All show that globalization works by linking smallholder farmers to markets and that tropical products like cocoa, coffee, nuts, and lumber can be grown and harvested in ways that improve livelihoods and protect the environment.

- In the Sustainable Tree Crops Program Alliance, a consortium of chocolate companies including The Hershey Company and Masterfoods are securing long-term supplies of cacao by enhancing the well-being of the farmers who harvest it.
- In the Sustainable Forest Products Global Alliance, The Home Depot and the World Wildlife Fund have teamed up to promote market demand for certified forest products.
- In the Conservation Coffee Alliance, Starbucks and Conservation International are improving biodiversity through shade-grown coffee and paying price premiums to producers of high-quality beans.

- In the Continuous Improvement Alliance for Labor Standards in Central America, Gap, Inc., and other partners are raising the competitiveness of clothing manufacturers by improving the standards under which factories operate.

In each of these cases, USAID is a supportive alliance partner — a funder, convener, and broker of solutions that improve lives. As developing countries participate in world markets, USAID is ensuring that farmers and workers have greater opportunities to improve their livelihoods by participating in global trade.

SUSTAINABLE TREE CROPS PROGRAM ALLIANCE
HELPING THE SMALLHOLDER FARMER IN AFRICA

" As a specialty chocolate company, we see the importance of building regional cocoa programs that increase farmer productivity and the quality of cocoa grown in the tropics."

ED SEGUINE, GUITTARD CHOCOLATE COMPANY

PURPOSE

To improve the economic and social well being of smallholder farmers and the environmental sustainability of tree crop farms in West Africa, Latin America, and Asia.

CONTEXT

The most important tree-based commodity in West Africa, cocoa also provides a livelihood for rural producers in Latin America and Asia. In all three regions, millions of small-scale family farmers cultivate the crops. Fungal diseases and insect pests destroy a third of the crop annually, while weak extension and information systems, inefficient market systems, and shortcomings in national policy pose a threat to chocolate industry buyers as well as rural producers.

ALLIANCE MEMBERS

U.S. Agency for International Development

U.S. Department of Agriculture

World Cocoa Foundation (WCF), with more than 45 chocolate industry members, among them Masterfoods, The Hershey Company, Nestlé Products, Kraft Foods, ADM Cocoa, Ferrero, Guittard Chocolate Company, Barry Callebaut, and Blommer Chocolate

Smithsonian Institution

International Institute of Tropical Agriculture

ACCOMPLISHMENTS AND OUTCOMES

STCP promotes shade-crop biodiversity methods that improve the quality and availability of cocoa beans for the international chocolate industry. The healthier trade climate fostered by the alliance is also raising the standard of living of participating farmers and improving the labor climate for cocoa workers. Globally, more than 60,000 smallholders have graduated from farmer field schools and realized productivity gains of 30 to 50 percent. More than 2,000 farmers in Africa have been sensitized to child labor issues.

FUNDING ARRANGEMENT

U.S. Agency for International Development—$5 million

World Cocoa Federation and chocolate industry—$5 million

The Sustainable Tree Crops Program Alliance (STCP) improves the economic and social well being of small farmers and the environmental sustainability of tree crop farms in Africa (with expansion projects in Asia and Latin America), by bringing industry expertise and resources to bear on the cultivation and marketing of cocoa. The industry is represented by the World Cocoa Foundation (WCF), whose 45 members include Masterfoods, The Hershey Company, Nestlé, Kraft Foods, ADM, Ferrero, Barry Callebaut, Blommer and other chocolate companies and trade associations.

About 70 percent of the world's cocoa comes from West Africa, where it is the most important tree-based commodity. There, and in Latin America and Asia, millions of small-scale family farmers cultivate the crops according to time-honored tradition. But that tradition is challenged by deforestation, fungal diseases, and insects, which destroy a third of the cocoa crop annually. Weak extension and information systems, inefficient market systems, and shortcomings in national policy pose additional threats to the multinational chocolate industry as well as rural producers. The disappearance of tropical forests and declining yields on remaining acreage imperil the supply of cocoa to the industry and the livelihoods of producers.

In the 1980s a fungal plague called witches' broom turned Brazil — at the time the world's second-largest cocoa producer — into a net importer. Brazil's rural producers were devastated by the plague, and industry buyers resolved to work together to help producers prevent the recurrence of preventable diseases that had proved so destructive.

COCOA AND BIODIVERSITY: AN AWAKENING

The $40 billion chocolate industry is most visible in the form of companies in developed countries that grind cacao into cocoa and process it into finished chocolate products. Because cacao can be grown only in very specific climates (at 20 degrees latitude), the 10 leading producing countries account for more than 95 percent of exports. Similarly, the 10 leading consuming countries account for 75 percent of imports.

But as the chocolate industry became less vertically integrated over time, its connection with and understanding of cocoa producers grew increasingly distant. "The whole notion that they needed to be thinking about diversified systems or stability to rural communities was not yet part of their rationale," commented Jeff Hill, senior agricultural advisor for USAID. "They didn't see that it was in their enlightened self-interest to directly invest in smallholder producers."

The problems of cocoa supplies did not receive serious attention until the 1990s, when issues of biodiversity conservation, rural livelihoods, and poverty were finally recognized as inextricably linked. Today, the same concentrations have facilitated the development of a concerted approach to cultivation and marketing of cacao.

In 1998, a critical mass of stakeholders began to form around the problems of the cocoa supply chain. An industry-supported conference organized by the Smithsonian Tropical Research Institution in Panama convened some 200 government and industry leaders to discuss ways to strengthen cocoa production and cocoa producers. A research paper presented at the conference profoundly changed the views of industry and the donor community.

The paper described cultivation systems developed by farmers in Cameroon, who grew food crops on the ground under cocoa trees, taller fruit trees over the cocoa trees, and even taller shade trees that supplied local lumber. The farms using these practices were the most economically productive in West Africa and second only to rain forest producers in their preservation of biodiversity.

The Smithsonian conference concluded that cocoa farms could function simultaneously as economic engines and conservation tools. USAID representatives at the conference found it immensely significant that revenue production, food security, and poverty reduction efforts could be combined with conservation and biodiversity strategies.

Following the conference, USAID invited a high-level industry delegation to visit West Africa. The delegation visited research institutions, extension programs, and ministries of agriculture and finance to gain a better understanding of the systems supporting cocoa farmers. The reality that confronted the delegation contrasted sharply with the hopeful message of the conference. Existing support structures were extremely limited, and most farmers received no support at all. Less than 15 percent of farmers were organized in farmer organizations or co-ops — mechanisms through which extension services could be delivered and innovations disseminated.

The delegation presented its findings at a series of global stakeholder meetings in Paris in 1999. The resulting "Paris Declaration" by the chocolate industry, USAID, trade organizations, producer groups, and major international research institutions expressed the commitment of all parties to sustainable cocoa production. STCP evolved from that declaration.

USAID played a critical role in brokering the Paris agreement. "The chocolate companies have an interest in building up cocoa production," says GDA director Dan Runde. "Through our collaboration with neutral entities such as the World Cocoa Foundation and the International Institute of Tropical Agriculture, USAID is helping to bring alliance partners together."

A REGIONAL ALLIANCE IS BORN

Late in 1999, USAID invited 250 participants to Washington, D.C., to review a rudimentary outline of what is today known as STCP. Through a series of facilitated working meetings, stakeholder teams hammered out the four primary components of STCP:

- Stronger community groups
- Dissemination of technology and research
- Better policy, and
- More robust marketing and information systems.

Later the focus would expand to social and labor issues tied to cocoa production.

The plan called for the four focus areas to be implemented in West Africa, where Cameroon, Côte d'Ivoire, Ghana, Guinea, and Nigeria recognized their common interests. As the initiative matured, independent national cocoa networks began to collaborate on a regional basis.

In the pilot phase of STCP, innovations in productivity, marketing and trade, and farm diversification were tested and validated. Successful practices were then integrated into national and regional development efforts. Farmers were linked to markets through producer organizations; farm field schools expanded farmers' knowledge and use of proven technology and techniques. Together these actions now protect rural producers from dangers, such as crop pestilence and market instabilities and help ensure a more secure and sustainable supply of cocoa for industry buyers. "Sustainable cocoa farming in West Africa not only secures the supply chain for the long term," says John Lunde of Mars, Inc., but also protects the livelihood of more than 1.5 million cocoa farmers in the region."

ADVANCING COCOA CULTURE AT 20 DEGREES LATITUDE

Operating in all of West Africa's major cocoa-producing countries, STCP is administered by the International Institute of Tropical Agriculture (IITA), a U.K.-based member of the UN-affiliated Consultative Group for International Agricultural Research that works to enhance incomes and food security in Sub-Saharan Africa. A spin-off alliance, SUCCESS, operates in Indonesia, Vietnam, and the Philippines. Another spin-off, ACCESSO, was recently launched in Peru, Bolivia, and Colombia. With the new alliances in Asia and Latin America, USAID and industry stakeholders — joined later by the U.S. Department of Agriculture (through USDA's Food for Progress program) — are now engaged in a global alliance spanning the entire band at 20 degrees latitude north and south of the equator.

All three regional initiatives provide farmers with organizational support, marketing information, policy reform, research services, and technical training through dedicated farmer field schools. The schools teach farmers how to boost their incomes by increasing yields and quality, while protecting cocoa's natural resource base. As with coffee, cocoa is often cultivated with other plant and animal life. That practice offers the benefit of diversifying farmers' overall production, but it also requires special care to avoid disrupting the ecosystem.

Farmer field schools also teach farmers about shade management, tree husbandry, and postharvest handling. The teaching has been effective. A recent random sampling demonstrated a 42 percent reduction in hazardous practices among field school participants compared to nonparticipants. The curriculum will soon include crop diversification, natural fertilization, and other best practices. The result has been dramatic; incomes have increased between 20 and 50 percent. In some cases producers doubled their income.

To date, more than 80,000 farmers have graduated from schools supported by the alliance. Each trainer works with about 20 facilitators, who then conduct workshops and training on cocoa farms — an extension function. In many cases, new facilitators are recruited from among the most avid field school participants.

ELIMINATING THE WORST FORMS OF CHILD LABOR IN COCOA FARMING AND PRODUCTION IN WEST AFRICA

In September 2001, global chocolate and cocoa industry representatives signed the "Harkin-Engel Protocol" to eliminate the worst forms of child labor in growing cocoa beans and cocoa bean products in West Africa. The agreement marks an important first—as an entire industry has made a commitment to work with host governments and other partners in developing voluntary certification standards for cocoa farm workers, particularly children. The protocol was developed by Senator Tom Harkin (D-IA) and Representative Eliot Engel (D-NY), in response to evidence of harmful child labor practices in cocoa production. The agreement serves as a framework for progress that brings together the cocoa industry, West African governments, organized labor, nongovernmental organizations (NGOs), and farmer groups.

The overarching goal of the effort is to ensure that children are not harmed in cocoa farming. Achieving that requires improving the lives of children and the incomes and economic opportunities of cocoa farming communities. Social conditions are also very important—children must have access to schools and families to health services.

As a result of the protocol, the chocolate and cocoa industry are creating something virtually unprecedented—a voluntary certification system to monitor and curtail the worst forms of child labor. The system will analyze data from monitoring efforts, report on child labor practices, and implement measures to address the worst forms of child labor. Each country's cocoa farming sector will be certified on the basis of reports from independent local NGOs, community and youth leaders, and other groups not tied to the cocoa industry. Once certification has been verified, reports will become publicly available.

The industry is supporting other programs to improve conditions in West Africa's cocoa farming communities through the World Cocoa Foundation. Newly established "farmer field schools" educate communities on farming topics and issues—among them the role of children on the family farm—while providing secondary messaging to reduce the worst forms of child labor, encourage education, and prevent HIV/AIDS. The CLASSE program (Child Labor Alternatives through Sustainable Systems in Education) aims at improving access to education at the village level. STCP contributes by helping farm families earn more, thereby reducing the incentive to send children to work instead of to school.

In February 2004, representatives from public and private organizations came together at the National Academy of Sciences in Washington, DC, to review cocoa's role as a model crop that enhances the economy, environment, and health of countries that grow it. Carol Brookins, U.S. executive director to the World Bank, gave credit to STCP: "Through this unique public/private partnership, we have made incredible advances in cacao research and economic development for farmers in tropical regions that would not have been possible without the willingness of industry, academia, government and international organizations to come together for the greater good."

SOCIAL PROGRAMS AND CHILD LABOR

The networks formed under STCP have enabled the alliance to address social development issues with farmers and communities. Child labor has become a focus of social improvement efforts, particularly aimed at helping "at-risk" children while simultaneously addressing the underlying community issues that lead to abusive labor practices. The result is an industry commitment to develop voluntary certification standards to protect cocoa farm workers, particularly children. In addition, farmer education programs include sessions on issues such as HIV/AIDS, child labor, the importance of children's education, and the role of children on the family farm (see box on page 41).

With support from USAID, the U.S. Department of Labor, the WCF, the International Labour Organization (ILO), and West African governments, IITA surveyed child labor practices in the cocoa sector of West Africa, comparing those practices to ILO conventions.

The study found that although most of the children working on cocoa farms did so as part of a family unit (a traditional pattern in West Africa), some child laborers had no family ties to farmers. Those with no family ties and those recruited through intermediaries are more likely to be exploited, the study found. Children who work are less likely to attend school. In Côte d'Ivoire, for example, about one-third of school-age children living in cocoa-producing households have never attended school. The study also found that children were applying pesticides, using machetes to clear lands, and bearing heavy loads.

The alliance approach was critical to the establishment of the certification program, because no single chocolate company would have risked the competitive disadvantages of acting alone to certify good labor practices.

BEANS OF PLENTY

The combined impact of STCP, SUCCESS, and ACCESSO is paying off for all partners. As USAID's Jeff Hill puts it, "An important achievement of STCP is its success in building an industry coalition committed to improving the circumstances of cocoa producers. Clearly, a consensus exists that the future of the chocolate business depends on the future of rural families growing the cocoa."

More than 15,000 farmers have graduated from STCP's field schools in Cameroon, Côte d'Ivoire, Ghana, Guinea, and Nigeria, resulting in significant improvements in yield and income. In Indonesia, the Philippines, and Vietnam more than 50,000 farmers have graduated from farmer field schools run by the SUCCESS alliance, leading to quality improvements, lower pesticide use, and improved yields and incomes. In Latin America, the ACCESSO alliance is helping to coordinate and promote the adoption of best practices among the various cocoa initiatives in the Andean Region.

On this global scale, USAID and the chocolate industry have invested millions of dollars to improve the lives of rural producers, while also boosting trade and production. In so doing, the alliance rebuts the conventional wisdom of the 1980s and 1990s, that traditional export sectors offered little to stimulate sustained economic growth.

SUSTAINABLE FOREST PRODUCTS GLOBAL ALLIANCE

"TO CONSERVE, PROTECT, AND RESTORE THE WORLD'S FORESTS"

PURPOSE

To advance a new model for forest conservation and community development in which sustainable forest management is rewarded in the global marketplace.

CONTEXT

More than 1.6 billion people around the world depend on forests for their livelihood, but many forested ecosystems are being destroyed at unprecedented rates by destructive and illegal logging, conversion to other land uses, and poor forest management.

ALLIANCE MEMBERS

U.S. Agency for International Development

World Wildlife Fund

Metafore

United States Department of Agriculture (USDA) Forest Service

The Home Depot

ACCOMPLISHMENTS AND OUTCOMES

More than 13 million hectares of forest are now committed to a credible system of certification, so that buyers can be sure that the wood products they buy come from well-managed forests. Trade in responsibly sourced forest products among participants in the Global Forest and Trade Network (GFTN) now exceeds $37 million. Metafore has trained thousands of producers in responsible forest management. In some high-profile cases, GFTN partners have exerted their purchasing power to find solutions to illegal logging.

FUNDING ARRANGEMENT

U.S. Agency for International Development: $9.5 million

United States Department of Agriculture Forest Service: in-kind technical assistance and expertise

The Home Depot: $1 million

Other corporate donors, including Andersen Corporation, Lowe's, IKEA: $27 million

A groundbreaking alliance of business, government, forest communities, and civil society establishes a framework for responsible forest management and global trade in forest products.

The loss of millions of acres of tropical forest to illegal logging, clearing by indigenous people for new farmland, or government development and resettlement programs results in short-term gains but long-term economic and environmental consequences. The Sustainable Forest Products Global Alliance facilitates partnerships and business practices that help reverse the clear-cutting and illegal logging that threaten the long-term productivity of the world's great forest areas. By reducing trade in illegally harvested and unsustainably managed forest products, the alliance is improving conditions for resource-dependent communities and low-income producers. Together, the alliance's partners are working to advance a new model for forest conservation and community development in countries assisted by the U.S. Agency for International Development (USAID).

The World Wildlife Fund (WWF), an alliance partner, has helped build national and regional forest and trade networks (FTNs) with companies committed to practicing or supporting responsible forestry. These FTNs have come together as the Global Forest and Trade Network (GFTN). By facilitating trade links between member companies committed to achieving and supporting responsible forestry, the GFTN creates market conditions that help conserve the world's forests while providing economic and social benefits for the businesses and people that depend on them.

For example, Samartex Timber and Plywood Company is the leading producer of forest products in West Africa, with $20 million in annual sales through the 159,000 hectares (392,889 acres) of forest the company manages. With the encouragement of two of its major buyers (members of the U.K. Forest and Trade Network), the company committed to certify all its products as not coming from endangered or illegally harvested forests when it joined the Ghana Forest and Trade Network in May 2005. Samartex declared a moratorium on logging in primary forests, developed benefit-sharing plans with communities of Samartex-managed lands, and laid out a work plan for credible certification by 2007.

In Indonesia, meanwhile, the giant Asia Pulp and Paper (APP) was doing business in a manner that threatened Sumatran forests. WWF first sought constructive engagement with APP directly. Negotiations proceeded, only to collapse when the company went ahead with further purchases of illegally harvested wood. WWF next turned to GFTN members and other stakeholders in the forest products trade. Japanese paper companies signaled that improved environmental performance would help APP maintain a business relationship with them. In Europe, WWF engaged APP customers and managed to insert environmental safeguards into APP debt restructuring agreements. In the United States, Staples, Inc., and Office Depot, Inc., both demanded reforms; Office Depot later suspended its dealings with APP pending resolution.

The job is far from done — with Samartex, APP, or any other of the many companies whose products originate from endangered forests. But through constructive engagement, the GFTN global network is changing the future, one forest products company at a time.

VOLUNTARY COMMITMENT

In 1991, a small group of companies in the United Kingdom committed to purchasing wood products from well-managed forests. These companies became the first forest and trade network. By the end of the decade, similar groups had sprung up in Europe, Brazil, Japan, and the United States. They included some of the most prestigious names in the global forest products industry. The GFTN member companies generated more than half of all demand for certified forest products in the 1990s, according to the United Nations.

In 2001, USAID began to engage the private sector in preserving biodiversity. Several of the agency's bureaus came together under the leadership of USAID's Forestry Team to find market-based solutions to critical forest-management issues. Through intensive consultations within USAID and with potential partners, the Forestry Team assembled strong support for engaging business as stakeholders in the development agenda.

The alliance concept was taken to an international Forest Leadership Forum organized in April 2002 by WWF and Metafore, an NGO based in Portland, Oregon, that works with business to identify market-based practices that support thriving forests. A landmark event that bridged the interests of environmental groups, retailers, forest communities, and the forest products industry, the forum made allies of parties previously thought to be adversaries. More than 1,300 participants from 45 countries developed a framework to address issues of common concern — chief among them illegal logging, preserving forest biodiversity, and the role of certification schemes in improving forest management. A key outcome of the conference was the understanding that business markets and purchasing behavior can be important drivers of social and environmental change.

In light of the feedback and interchange from the Forest Leadership Forum, USAID refined its alliance concept and issued a solicitation for groundbreaking approaches in natural resource management that would bring government, industry, and NGOs together as partners.

USAID awarded $3.5 million to an alliance proposed by WWF and Metafore, based in part on the two organizations' groundbreaking work with The Home Depot and other leading buyers, marketers, and producers of forest and paper products to track the origin of wood products and certify that those products come from well-managed forests.

USAID administrator Andrew S. Natsios, WWF president Kathryn Fuller, Metafore president and CEO David Ford, and a representative of The Home Depot formally announced the Sustainable Forest Products Global Alliance (SFPGA) on May 6, 2003.

ROLES OF THE MEMBERS OF THE SUSTAINABLE FOREST PRODUCTS GLOBAL ALLIANCE

- U.S. Agency for International Development (USAID) provides funds and manages the alliance.
- The World Wildlife Fund manages the Global Forest and Trade Network, an affiliation of national and regional buyer and producer groups in nearly 30 nations, with more than 400 member companies committed to responsible forestry.
- Metafore works with North American businesses to promote the responsible purchasing and use of wood and paper.
- The United States Department of Agriculture (USDA) Forest Service provides technical support and guidance.
- The Home Depot, a charter private sector partner, contributes funding, its global reputation, and its purchasing model in support of responsible forest management.

"The power of this alliance is that it brings together influential North American–based companies that not only buy paper and paperboard products from developing countries, but, in many cases, actually have operations in these regions," said David Ford, Metafore president and CEO. "We're working with leaders in the industry to help them source and use products in ways that benefit the forests in these areas and the communities that depend on these natural resources."

HOW THE GLOBAL FOREST AND TRADE NETWORK WORKS

Through the voluntary GFTN framework supported by the alliance, corporations, NGOs, forest communities, and governments cooperate to design and implement market-based schemes (such as certification) that promote responsible forest management.

"Forest" members of FTNs are forest owners and managers that have achieved or are committed to achieving credible certification using one of two certification systems. "Trade" members are primarily retailers, distributors, and manufacturers of forest products, including community and private enterprises of all sizes from cooperative sawmills to industrial-scale pulp mills that have committed to supporting credible certification.

Participating in FTNs brings many benefits to buyers and producers. Forest owners and managers receive information and technical assistance to improve forest management, achieve certification, and find customers for their products. They join a powerful advocacy group supporting changes in forest-sector policy and law. They may become eligible for financing to invest in their operations. Retailers and distributors in FTNs receive assistance with the development and implementation of procurement policies, are briefed on nontraditional or lesser-known wood species and sources, and get help in their efforts to encourage their suppliers to pursue certification.

Perhaps most important, both classes of members derive mutual benefit from each other — producers know they have a reliable market of buyers, and buyers know they have dependable long-term suppliers. As of September 2005, GFTN consisted of 35 forest members, 373 trade members, and 13 million hectares (32 million acres) of forests committed to credible certification throughout Europe, Asia, Africa, and the Americas. GFTN members' annual trade in forest products exceeds $15 billion.

The partners intend that GFTN will become a permanent commercial fixture — a self-supporting global clearinghouse of responsible trade in forest products largely independent of WWF management and oversight. The Jagwood+ FTN in Central America is a model example. The group has incorporated as its own professional membership organization. Corporations ask members of their senior staff to govern the group on a rotating basis, while SFPGA funds pay for a regional coordinator to facilitate market links. Other FTNs are seeking a similar level of sustainability.

THE POWER OF EFFECTIVE ADVOCACY

While WWF advances market incentives for responsible forest management on a global scale, Metafore pursues an advocacy agenda in the boardrooms of North American businesses that have global reach and major purchasing and production power — such as Bank of America, Nike, McDonald's, and Staples. Metafore's goal is to provide the knowledge, tools, and connections to help companies align their business objectives with responsible wood and paper production, purchasing, and use.

Like GFTN, Metafore applies a marketplace leadership concept through its Paper Working Group, a collaboration between Metafore and 11 large-volume paper users to increase the affordability and supply of environmentally responsible paper. In line with the SFPGA mission to foster collaboration in addressing broad environmental and social challenges through action in the global marketplace, the Paper Working Group promotes stakeholder involvement across the forest products supply chain, with Metafore as both a collaborator and coordinator and communicator of group efforts.

"The power of this alliance is that it brings together influential North American–based companies that not only buy paper and paperboard products from developing countries, but, in many cases, actually have operations in these regions," said David Ford, Metafore president and CEO. He adds, "We're working with leaders in the industry to help them source and use products in ways that benefit the forests in these areas and the communities that depend on these natural resources."

The Paper Working Group began operations in 2003, when representatives from two large-volume corporate paper buyers consulted Metafore about implementing forest-product purchasing policies. Those businesses found it difficult to integrate global forest-management standards and manufacturing practices into their operations. As it turned out, several companies were experiencing similar challenges; from this discovery, Metafore's Paper Working Group was formed. Its principal source of value to participating businesses is a common definition of environmentally preferable paper and consistent measurements for global buyers and suppliers of paper on the components of environmentally sound paper.

Mark Buckley, vice president of environmental affairs for Staples, remarks that Metafore's convening authority proved to be of great value in bringing partners together that might not have collaborated otherwise. The working group provides an opportunity to "not just focus on sustainable forestry or recycled content, but to take a broader view of paper and its whole life cycle."

The Paper Working Group defines environmentally preferable paper based on seven related outcomes:

- Efficient use and conservation of raw materials
- Minimization of waste
- Conservation of natural systems
- Clean production
- Community and human well-being
- Economic viability
- Credible reporting and verification

Through the web-based Environmental Paper Assessment Tool, participating companies establish consistent language and metrics for environmentally preferable paper that enable efficient communication between the buyers and suppliers of these products.

CHALLENGES OVERCOME, OPPORTUNITIES EMERGING

Now in its fourth year of implementation, SFPGA has encountered obstacles and learned lessons. A retreat held to evaluate the first year of the alliance revealed that having two lead implementers with discrete organizational priorities and protocols had sometimes created a barrier to working together. Retreat participants decided that some unwieldy processes needed to be changed to better coordinate implementation and reporting efforts — and to better illustrate the achievements of the alliance. Joint work plans and quarterly reports have since been the norm.

But the alliance has scored clear victories as well. From at least as far back as the 2002 Forest Leadership Forum, corporations such as The Home Depot and Andersen Corporation, makers of windows and doors, have found value in partnering with USAID on global trade in responsible forest products.

The alliance is poised for continued success through its relationships with businesses, policymakers, and civil society organizations. For example, several high-profile cases of illegal logging have been resolved through a new class of partners in the finance sector, many of which have adopted the Equator Principles, under which participating companies agree not to lend money for a project until the borrower explains how it will meet criteria for sustainable development and other social goals. By tracking trends in the forest products sector, WWF and Metafore have been able to convince the world's most influential banks to adopt responsible purchasing policies and corporate procurement policies that are fully aligned with alliance values and goals.

In four years of operation, SFPGA has shown that when alliance partners act on shared goals in a manner best suited to each and align operations to promote responsible harvesting, purchasing, and use of forest products, the end result is greater than what any one partner could achieve alone: trade in responsible forest products on a global scale.

CONSERVATION COFFEE ALLIANCE

FIELD-TO-CUP STEWARDSHIP OF THE WORLD'S LARGEST RESERVE OF BIOLOGICAL DIVERSITY UNDER INTENSIVE HUMAN MANAGEMENT

"Instead of destroying productive land, coffee cultivation is now an engine of conservation. Instead of slash-and-burn, we are conserving biodiversity"

AMBASSADOR TONY GARZA

A major coffee company builds an alliance with an international conservation organization and USAID to promote sustainable coffee-farming practices that fairly compensate growers, restore and protect rain forests, and supply a growing market for quality coffee beans.

PURPOSE

To expand the cultivation and sale of high-quality, shade-grown coffee.

CONTEXT

The El Triunfo reserve in Chiapas, Mexico is among the world's largest reserves of biological diversity under intensive human management. The small-scale farmers from such regions typically grow their crop under a canopy of shade trees, often alongside other crops for domestic consumption or local markets. Because this system provides native flora and fauna critical to conserving the diverse ecosystems in which coffee is produced, coffee farmers are also stewards of biodiversity. The Conservation Coffee Alliance has taken up the challenge to make sustainable livelihoods and sustainable ecosystems possible through a "field to cup" intervention in which stewardship is practiced throughout the supply chain, from grower to consumer.

ALLIANCE MEMBERS

Conservation International

Starbucks Coffee Company

U.S. Agency for International Development

ACCOMPLISHMENTS AND OUTCOMES

The alliance has succeeded in improving the supply of premium coffees that meet the market demands for high-quality, shade-grown coffee. In Mexico, the initial group of 300 farmers has grown to 1,000 growers in six producer organizations.

FUNDING ARRANGEMENT

U.S. Agency for International Development: $1,200,000

Starbucks Coffee Company: $1,500,000

Conservation International: $500,000

For Rogelio Vazquez and other growers in the Chiapas region of Mexico, supporting a family on income from coffee was never easy. Wild price fluctuation was a major reason. Vazquez earned $200 for a 132-pound bag of coffee in 1997; two years later he could barely get $40. He and other farmers were sometimes told that their coffee was substandard and that they had to adopt growing techniques nobody understood.

In 2001, the U.S. Agency for International Development (USAID) enlisted Conservation International, experts in protecting biodiversity, to help farmers in and around the El Triunfo nature reserve grow coffee of higher quality and to sell that coffee directly to Starbucks Coffee Company. Starbucks agreed to buy coffee the farmers produced—*if* it met certain criteria for quality and growing methods. With USAID and Starbucks's support, Conservation International showed farmers such as Rogelio Vazquez how to meet those standards. Thanks in large part to Starbucks's willingness to pay more for higher quality, Vazquez's income recovered to $100 a bag. USAID and its partners are now expanding this longstanding and successful alliance in Mexico, Costa Rica, and Panama.

Through a comprehensive "field to cup" intervention, the Conservation Coffee Alliance is building capacity among smallholder farmers through training and access to credit services promoting quality and transparency in the supply chain through sourcing guidelines that include social and environmental performance criteria, and stimulating demand at the end of the supply chain. Together, alliance partners are enhancing the livelihoods of smallholder farmers by adapting to and benefiting from market forces that favor specialty coffees.

BUILDING THE ALLIANCE: LIVE YOUR VALUES THROUGHOUT THE SUPPLY CHAIN

Sue Mecklenburg, vice president for Business Practices, ascribes Starbucks Coffee Company's astounding transformation of the U.S. coffee industry in the 1990s to a strong corporate culture that links business performance with employees' skills, morale, and good health. She summarizes that culture as "hitting our numbers and living our values."

Case in point: Howard Schultz, Starbucks's founder and chairman, after witnessing his father struggle with inadequate health care during periods of unemployment, resolved never to allow a similar hardship to befall his colleagues. Today, Starbucks provides health-care benefits to all employees working 20 or more hours per week.

But in the transformation from a string of Seattle coffeehouses to global purveyor of the $3 caffeine shot, Starbucks recognized in the plight of smallholder coffee producers a set of challenges that neither savvy marketing nor superior customer service could solve.

"While we take great pride in our business and our broader role as a good corporate citizen, we also recognize that we are not a social development business," says Mecklenburg. "We're good at opening four stores a day, but that is different from ensuring transparency in coffee farms in the Latin American highlands. We needed help to do that."

Conservation International first approached Starbucks in 1997, hoping to establish a relationship based on a shared commitment to require at-origin conservation measures on all coffee purchased. At the time, it was a bold

WEAVING CORPORATE SOCIAL RESPONSIBILITY INTO STARBUCKS'S BUSINESS MODEL

As Starbucks considered cooperation with nongovernmental organizations in safeguarding its supply chain, it faced the question of where to house the new functions within its organizational structure. Was the livelihood of farmers really a core business function? Or should it be dealt with through the company's philanthropic division, or perhaps even a dedicated corporate foundation? Was cultivating and harvesting coffee in a manner that restored biodiversity a matter of corporate compliance with environmental regulations, or was it a question of safeguarding the long-term supply of the commodity on which its business depended?

In his presentation of the Starbucks 2004 corporate social responsibility report, Orin Smith provided the answer, laying out a straightforward relation between the company's core business functions and the health of ecosystems and the livelihoods of farmers:

"Our CSR program is not a philanthropic effort. We do have philanthropic initiatives, but these may or may not be part of a social responsibility program. We recognized long ago that while philanthropy is important, these initiatives can never go far enough to fulfill the responsibilities that we have socially. We understood that in order to fulfill our obligations, we must build our social responsibility programs into the business model itself."

Accordingly, the Business Practices division of Starbucks exists within a CSR department headed by a senior vice president who reports directly to the chief executive. Starbucks's work with USAID is tied to its direct business interests.

At the same time, "Starbucks is making a real difference in the quality of the natural environment while helping farmers who live in sensitive ecosystems," says Peter Seligman, Conservation International chairman and CEO. "Our project in Chiapas has resulted in a 40 percent average increase in coffee farmers' earnings, a 100 percent growth in the cooperative's international coffee sales, and $200,000 in non-Starbucks harvest loans to farmers' cooperatives."

proposition for a company just beginning to consider the prospect of adapting its purchasing practices to meet concerns about environmental sustainability and the livelihoods of coffee farmers.

An initial meeting included Glenn Prickett of Conservation International and Dave Olsen, the Starbucks senior vice president who had put together the company's first nonprofit strategic alliance with CARE. After reviewing the results of the due diligence he requested on Conservation International and several other conservation organizations, Olsen invited Conservation International to Seattle to explore the two organizations' mutual interests in conservation and coffee. Sue Mecklenburg, then director for environment and community affairs, was among those involved in the relationship building.

In 1998, after mutual trust had been developed through frank dialogue, Starbucks committed $150,000 over three years to allow Conservation International to work to protect biodiversity and empower smallholder producers in the El Triunfo reserve. Starbucks promised to evaluate the coffee produced under the initiative according to its stringent standards for specialty coffee. The company was willing (but did not guarantee) to purchase some or all of that production. The parties codified this agreement in a memorandum of understanding (MOU).[1]

Working with 300 farmers, each tilling fields of two hectares or less, Conservation International's local cooperative partners produced, in their first year, two containers of organic specialty coffee suitable for purchase. Matthew Quinlan was a member of the Conservation International team working with the cooperatives. "From the 1998 MOU, we had three years to meet standards," he recalls. "But we met our first production goals on the very day a Starbucks newsletter announced the three-year target. It was a great success for us and a real shot in the arm for the partnership."

In 1999, the product was branded as Shade Grown Mexico and marketed as a special product resulting from the Conservation International–Starbucks alliance. It was one of a small selection of products marketed and sold under Starbucks's *Commitment to Origins* coffee category, which also included Fair Trade Certified and certified organic coffees.

GOING TO THE SOURCE: U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT SCALES UP TESTED RELATIONSHIPS

Fresh off the successful launch of its co-branded, shade-grown coffee label, Starbucks and Conservation International looked to expand the relationship. Conservation International identified the Matching Grant Program in the USAID Office of Private and Voluntary Cooperation (PVC) as a good opportunity to leverage additional funding support.

For two decades, USAID's Matching Grant Program had helped U.S. NGOs develop their community-based programs overseas. By matching dollar-for-dollar a NGO's own resources, the Matching Grant Program (a forerunner to GDA) supported NGO projects that were consistent with USAID's evolving sectoral and geographic priorities.

For Martin Hewitt, director of the Matching Grants program at the time of Conservation International's proposal, the intriguing prospect was directly involving communities within and surrounding the El Triunfo. "We used to wonder what stake local people have in buffer zones in a conservation strategy," Hewitt said. "The Conservation International proposal had the potential to realistically address the livelihoods of local people and provide a powerful market incentive for coffee producers to advance conservation and biodiversity."[2]

Through a matching grant, USAID provided Conservation International approximately $1 million over three years (2000–03) for its work with Starbucks in the El Triunfo reserve.

With the success of Shade Grown Mexico and additional support from USAID, Conservation International and Starbucks turned their atten-

ROLES OF THE MEMBERS OF THE CONSERVATION COFFEE ALLIANCE

- Conservation International provides technical assistance and agricultural knowledge to small farmers and cooperatives participating in the program.
- Starbucks Coffee Company, the world's leading roaster and retailer of specialty coffees, assesses and purchases coffee produced by Conservation International's local partners. Purchases over several years have provided a reliable and expanding market for shade-grown coffee and the CAFÉ initiative.
- The U.S. Agency for International Development provides funds and country mission support. It has helped the alliance scale up from the Chiapas region to elsewhere in Mexico, Costa Rica, and Panama.

tion to the section of their agreement that called for systemic changes in Starbucks's supply-chain management: sourcing guidelines.

FROM QUALITY TO SUSTAINABILITY

In November 2001 the parties announced that they would award premiums to growers who met certain environmental, social, and economic criteria. The goal was to ensure sustainability in growing practices, as well as high quality.

Starbucks's sustainable buying guidelines came to be called the CAFE (Coffee and Farmer Equity) Practices initiative. By 2004, under the initiative, Starbucks was paying participating producers more than twice the market rate for commodity grade coffee. CAFE Practices also demonstrated to millions of discerning consumers Starbucks's social and environmental responsibility. The message was not lost on other industry players.

By 2004, Conservation International and Starbucks had also expanded their alliance to Peru, Colombia, Panama, and Costa Rica. Through a proposal submitted to GDA, Conservation International again invited USAID to participate. USAID joined the alliance in Panama and Costa Rica.

USAID's $1.2 million contribution matched an earlier pledge by Starbucks of $1.5 million over three years. The funds would allow Conservation International to expand its work with farmers to promote water and soil conservation, crop diversification, and reductions in the use of chemical fertilizers and pesticides—all designed to protect the surrounding forest, streams, and wildlife. In addition to its expertise, Conservation International pledged $500,000 to the alliance.

The MOU cementing the alliance of USAID, Starbucks, and Conservation International—the first for USAID but the third for Starbucks and Conservation International—was signed in September 2004 in Mexico City at a ceremony hosted by Tony Garza, U.S. ambassador to Mexico.

"Instead of destroying productive land, coffee cultivation is now an engine of conservation. Instead of slash-and-burn, we are conserving biodiversity," said Ambassador Garza, addressing businessmen and coffee growers at a Starbucks store. "The partnership model we are honoring today is the business model of the future."

SOARING PAST ORIGINAL TARGETS: STABLE PRICES, SUSTAINABLE GROWING PRACTICES, BETTER COFFEE

Starbucks's CAFE Practices initiative has far outstripped its targets:

- In fiscal year 2004, Starbucks paid an average price of $1.20 per pound for green (unroasted) coffee. The average price on the New York "C" Market was $0.69 per pound.
- The company purchased 43.5 million pounds of coffee from preferred suppliers who had implemented sustainable measures through CAFE Practices, far exceeding the goal of 30 million pounds.
- Starbucks has set ambitious targets to purchase 75 million pounds of CAFE coffee in 2005, 150 million pounds in 2006, and 225 million pounds in 2007.

In the El Triunfo Biosphere Reserve in Chiapas, results have been lasting:

- The Chiapas program increased its client base from two to six cooperatives in two years, while the number of participating farmers rose from 300 to more than 1,000.

- Approximately 3,000 hectares of coffee fields are now managed using the best practices for conservation coffee.
- Starbucks Coffee Company has bought coffee directly from the project's cooperatives for four consecutive years, beginning with purchases of 75,000 pounds in 1999 and increasing to 1.7 million pounds (45 containers) in 2002 and 2003, and 42 containers in 2004.
- Since late 2000, Verde Ventures has advanced over $2.2 million to eight cooperatives in Chiapas, with a 99 percent repayment rate.

1. MOUs between USAID and its resource partners are not binding legal documents. Those executed by Starbucks and Conversation International were explicit in setting out funding arrangements, partner roles and responsibilities, lines of communication, and criteria for dissolution of partnership.
2. "The Matching Grants program was a fabulous program," said Quinlan. "We had a relationship with Starbucks, but it was USAID who gave us the resources needed to build it. Without USAID's support of NGO-business relationships back in 2000, the present relationship would not exist."

USAID, VERDE VENTURES, AND ECOLOGIC FINANCE HELP COFFEE FARMERS BRIDGE THE CREDIT GAP

Ask coffee farmers anywhere in the world what they need most to help their family, and the answer will be the same: credit to tide them over between the harvest and the time they are paid. Farm-gate prices often leave producers with barely enough to provide for their families, let alone to invest in the upcoming production cycle. But the small- and medium-sized rural credit market is too big for microfinance loans, and farmers are typically not eligible for loans from local financial institutions.

Since 2000, in an initiative that grew from the experience of the Conservation Coffee Alliance, Conservation International's Verde Ventures program and EcoLogic Finance, a nonprofit offering affordable financial services to community-based businesses operating in environmentally sensitive areas of Latin America and select countries of Africa and Asia, have filled the rural credit gap by providing loans to low-income communities whose business activities respect environmental conservation and promote grassroots economic development.

The approach is simple. Once cooperatives commit to purchasing agreements with final buyers such as Starbucks and Green Mountain Coffee Roasters, Inc., according to stringent standards of conservation and quality, Verde Ventures and EcoLogic Finance advance farmers the funds they need to operate in the coming production cycle or to make investments in capital equipment and sustainable farming techniques.

To date, Verde Ventures has advanced more than $2.2 million to eight cooperatives in Chiapas. Only one has defaulted—a repayment rate of 99 percent. After a modest start in 1999, with loans of around $25,000, EcoLogic Finance now disburses loans as large as $500,000.

Recognizing the value of the EcoLogic business model, the U.S. Agency for International Development (USAID) strengthened the nongovernmental organizations' operational capacity in Latin America (and its relationships with buyers such as Starbucks and Green Mountain) by providing a $4 million credit guarantee. USAID's technical assistance and credit guarantee—but also the mere participation of USAID in the alliance—has lowered perceived risks and transaction costs for other partners, making it easier for final buyers to provide loan capital.

"Working directly with partners such as USAID and Starbucks sends a clear message to potential investors," argues William Foote, founder and president of EcoLogic Finance. "The message is that there is strong support—both public and private—for socially responsible investing."

With the recent rebound in coffee prices, the need for purchasing agreements is no longer so acute. But credit based on the agreements is still needed to enable growers to make capital improvements and enhance farming techniques. Building a credit history also helps farmers access local sources of credit. Finally, as farmers know, the true value of such an arrangement is when prices are low, not at their peak.

USAID's relationship with EcoLogic has been successful:

- 4,000 small farmers in Latin America benefited from $3 million in loans in 2002.
- A $5.7 million trade credit in 2003 assisted 18 coffee farmer organizations in Latin America.
- 55 producer organizations in Latin America and East Africa benefited from $10 million in loans in 2004.
- Lending doubled in 2003–04, with a 99 percent loan repayment rate.
- 6,300 farmers will benefit from a $2 million loan guarantee for East Africa.

THE ALLIANCE FOR CONTINUOUS IMPROVEMENT IN LABOR STANDARDS IN CENTRAL AMERICA

GROWING GLOBAL COMPETITIVENESS THROUGH HIGHER LABOR STANDARDS

Clothing companies unite with representatives of labor and manufacturers to increase Central America's competitive edge through fairness *and* productivity.

PURPOSE

A strategic public–private alliance, the Continuous Improvement Alliance gives Central American apparel manufacturers tools to sharpen their competitive edge.

CONTEXT

Fair labor standards have become a critical element of competitive advantage for two big reasons. First, multinational brands increasingly demand compliance with such standards. Second, trade agreements such as the Central America Free Trade Agreement (CAFTA) make compliance a requirement for receiving trade benefits. Improving labor standards has become an important way for countries to improve competitiveness, gain market access, and attract foreign investment.

ALLIANCE MEMBERS

U.S. Agency for International Development

Development Alternatives, Inc.

Gap, Inc.

The Timberland Company

Social Accountability International

Commission for the Verification of Codes of Conduct

International Textile, Garment and Leather Workers' Federation

ACCOMPLISHMENTS AND OUTCOMES

An impressive effort to engage labor, management, corporate customers, and associated parties in activities leading to better working conditions, workplace cooperation, and long-term competitiveness in the world marketplace.

FUNDING ARRANGEMENT

U.S. Agency for International Development: $2,000,000

Gap, Inc. and The Timberland Company: $500,000 cash and $1,000,000 in in-kind contributions

The international context surrounding Central America's *maquila* sector is vastly different from what it was a year ago. The end of three decades of clothing and textile quotas under the Multi-Fibre Arrangement has made many producers more vulnerable to competition from low-cost producers. At the same time, debate over labor standards surrounding the Central American Free Trade Agreement (CAFTA) has put the apparel sector in the spotlight. In this new global context, improved labor standards have become a critical element of competitive advantage as multinational brands increasingly demand compliance standards, and as CAFTA and other trade agreements make compliance a requirement for receiving trade benefits. Improving labor standards has become an important way for countries to improve competitiveness, gain market access, and attract foreign investment.

The Continuous Improvement Alliance offers the maquila sector in Central America a way to overcome both challenges—to increase global competitiveness through continuous improvement in labor standards. The alliance leverages $2 million in funding from USAID's Global Development Alliance along with cash and in-kind contributions from brand partners, Gap, Inc., and The Timberland Company.

NO ONE CAN DO THIS ALONE

The Continuous Improvement Alliance is a multistakeholder initiative that brings together U.S. apparel retailers and a dynamic mix of leading international and local labor, training, and development organizations. This partnership was born of the partners' understanding that sustainable improvements in working conditions in the *maquilas* of Central America would require an intensive multistakeholder effort. According to Gap chief executive Paul Pressler, writing in the company's 2004 report on corporate social responsibility, "our goal is to help improve conditions across the apparel industry as a whole. And we know that's not something we can do alone." By using a multistakeholder approach, the alliance taps private sector mechanisms to improve working conditions, putting pressure on corporations to remain accountable for responsible sourcing. This approach allows for local input, thereby fostering the sense of ownership critical to sustainable outcomes.

Managed for USAID by Development Alternatives, Inc. (DAI), it draws on the technical expertise of Social Accountability International (SAI), global trainers in workplace labor standards. DAI asked SAI to reach out to global corporations, such as Gap and Timberland, both members of SAI's corporate board, and encourage them to forge an alliance with USAID to improve labor standards in Central America. The alliance also draws on the local union linkages of the International Textile, Garment, and Leather Workers' Federation, whose 217 affiliated trade unions represent 10 million workers. Additional on-the-ground knowledge comes from respected local groups that monitor labor standards, government ministries, civil industry associations, gender-focused NGOs, and other labor initiatives supported by the U.S. Department of Labor, the U.S. State Department, and the International Labour Organization. Given the highly sensitive nature of labor standards, DAI's perceived neutrality is viewed by all parties involved as key to gaining the trust of local groups and governments and expanding the alliance to include other major brands.

TWO PROJECTS, ONE GOAL

The alliance has funded two projects: Continuous Improvement in the Guatemalan Workplace (CIMGUAW), a pilot effort, and Continuous Improvement in the Central American Workplace (CIMCAW).

With a $530,000 seed grant from GDA, CIMGUAW serves global businesses and factories in Guatemala's textile and apparel sector by training some 20 managers in garment factories in and around Guatemala City on labor standards and workers' rights embedded in national labor legislation and ILO conventions ratified by Guatemala. The alliance is helping supplier factories develop systems to foster continuous improvement in labor standards and enhance their ability to achieve compliance with applicable standards. The alliance has found that better management and communication of labor standards can enhance productivity and economic opportunity.

With the success of the pilot program in Guatemala in September 2003, CIMGUAW expanded to five other Central American countries: Honduras, El Salvador, Nicaragua, the Dominican Republic, and Costa Rica. The expanded project is CIMCAW, a strategic public–private initiative involving USAID and Gap, Inc.

CIMCAW's primary objective is to help garment factories meet growing global demands for better working conditions and, in so doing, enhance their competitiveness by boosting quality and productivity. To this end, CIMCAW provides joint worker–manager training aimed at increasing the understanding by both groups of their rights and obligations while equipping managers with tools that can be integrated into management systems. CIMCAW also trains auditors and labor inspectors, notably in national ministries of labor, to increase institutional capacity to monitor labor conditions in manufacturing. Finally, CIMCAW supports social dialogue on the link between labor standards and national and regional competitiveness.

Since its launch in October 2004, CIMCAW has made remarkable progress. An initial country diagnostic, in which a local consultant provided information on the status of the garment sector in each target country, was completed in Phase I countries: Honduras, Nicaragua, and the Dominican Republic. A multistakeholder workshop will revisit the diagnostic with the aim of refining each country's work plan. Auditors and inspectors are now being trained in the Phase 1 countries. As with CIMGUAW, the next step will be to hold a curriculum development workshop, in which all key stakeholders will be invited to participate in the development of the training program.

OUTCOMES OF THE CIMCAW ALLIANCE IN SIX COUNTRIES, 2004–05

- Staged six multistakeholder workshops in Phase I countries: Honduras, Nicaragua, and the Dominican Republic
- Held three sectoral workshops with key unions involved in the maquila sector in Honduras, Nicaragua and the Dominican Republic and obtained their support for the project
- Completed diagnostic in Phase I countries
- Through a diagnostic validation workshop, engaged key stakeholders—private sector, unions, civil society and government—in dialogue on labor standards and helped the alliance build a relationship with key stakeholders
- Obtained support from the Corporación de Zonas Francas in Nicaragua, ADOZONA in the Dominican Republic, and the Association of Honduran Maquilas in Honduras
- Trained 30 private auditors and inspectors from Nicaraguan ministry of labor
- Selected local partners in Nicaragua and the Dominican Republic
- Cooperated with Central America Labor Assurance project, funded by the U.S. Department of State, and Greater Access to Trade Expansion/WID, funded by USAID
- Recruited Limited, Inc., as new corporate partner and hosted representatives of other multinational brands at exploratory sessions and as observers at factory training sessions

HIGHER LABOR STANDARDS, SUSTAINABLE SALES, AND A REPLICABLE MODEL

The experience of the alliance partners has shown that approaching the issue of labor standards from a multistakeholder perspective is critical to ensure sustainability and impact. The CIMGUAW partners have invested considerable resources in Guatemala to support an intensive multistakeholder dialogue that seeks common ground. Through that effort, CIMGUAW has put labor standards and corporate social responsibility on the agenda of key stakeholders and clearly defined compliance with labor standards as a determinant of competitiveness.

CIMCAW has taken this a step further and successfully incorporated labor standards into the regional agenda by highlighting the link between labor standards and national and regional competitiveness. The transition from CIMGUAW to CIMCAW shows that protecting workers' rights—helping to alleviate poverty, reduce income inequality, increase competitiveness, and enhance market access for developing countries, while ensuring that employment conditions are not undercut by a race to the bottom—is a win-win regional strategy.

Recognizing that labor standards are a critical development issue that affects trade, market access, gender concerns, social and economic development, and basic human rights, the alliance is forging links with other regional initiatives in areas not covered by alliance partners. The alliance has demonstrated the value of engaging the private sector as sources of contacts and expertise as well as funds. Global companies possess a vast network of important local contacts, command a huge pool of human resources, and offer a strong, on-the-ground presence in many developing countries.

DAI realizes that its traditional service offerings, such as stakeholder engagement and supply chain development, are very attractive to the private sector. Through the Continuous Improvement Alliance, DAI has learned some valuable general principles for alliance building:

- Pick a strategic NGO partner with a dynamic corporate board.
- In seeking a partner, target multinational corporations, that are willing to engage beyond philanthropy.
- Unite diverse organizations that share a common, overarching objective.
- Strike a balance between process and results.

Given the traditional tension between labor and management in the region, this change in relationships, driven by the marketplace and by the brand-name corporations that make up the maquilas' client base, shows how important cooperation is for all sides. To successfully compete, they need each other; CIMCAW's ability to reach all parties has been impressive.

CHAPTER FOUR

WORKING WITH EXTRACTIVE INDUSTRY

INVESTING IN COMMUNITIES

The role of extractive industries has changed over the last few decades. As governments in developing countries continue to improve their resource management goals, shareholders and business planners are critically examining the long-term effects and implications of their companies' operations. Leading companies are trying to balance their core business requirements with social investments in the countries and communities where they operate.

Companies with a long-term investment in extraction of natural resources have a clear interest in the quality of the host country's institutions and infrastructure; in the health, education, and training of the local workforce; and, often, in the development of local suppliers. In Angola, the U.S. Agency for International Development (USAID) is working with Chevron Corporation to support the growth of local business, rebuild infrastructure, and return ex-combatants to productive agricultural employment. Chevron understands that productivity rises when employees are educated, healthy, well housed, and hopeful about the future. They also appreciate the economic benefits of being able to turn to capable local suppliers of goods and services (including research and consulting).

While many companies traditionally have focused on building community schools or clinics, now they are also developing alliances with partner organizations, such as USAID, to ensure that their investments not only generate profitable returns, but also create conditions for sustainable long-term growth.

Extractive industry companies share common interests in making social investments that:

- Develop in-country capacity to supply operational needs
- Meet government requirements to build human capacity and employ host nationals
- Protect their "license to operate" in the eyes of the host government and local communities
- Cement production sharing or concession agreements with host governments in a transparent and constructive way.

The alliances profiled in this chapter illustrate that extractive operations can offer significant opportunities for all participants. Chevron in Angola, the international diamond trade in Sierra Leone, and the Siberian-Urals Aluminum Company in Russia all have developed alliances with USAID and other organizations to enhance the economic health and social stability of the regions where they operate and to better ensure that investments will deliver profitable returns—for all stakeholders.

ANGOLA ENTERPRISE DEVELOPMENT ALLIANCE
A BETTER SOCIETY IS EVERYBODY'S BUSINESS

Chevron Corporation and USAID help rebuild Angola's shattered economy and agricultural sector after prolonged and devastating civil war.

PURPOSE
To advance local business development, initiate recovery of the agricultural sector, and resettle ex-combatants and displaced Angolans.

CONTEXT
Angola's 27-year civil war left the country with an agricultural system in disarray and a shattered economy. Chevron Corporation, present in Angola since the 1930s, is the country's largest investor and top exporter of oil. In 2002, the company's chairman resolved to help Angola recover from war.

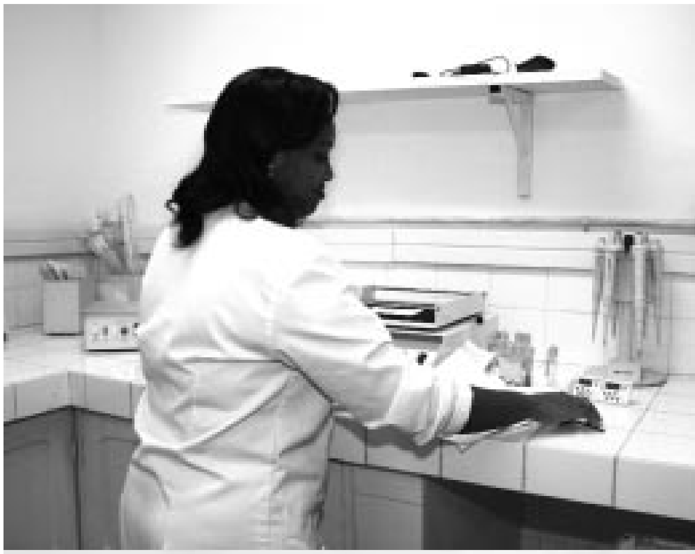
ALLIANCE MEMBERS
Chevron Corporation

U.S. Agency for International Development

ACCOMPLISHMENTS AND OUTCOMES
A balanced development program helped return 300,000 people to productive lives and restore the country's agriculture and economy. The alliance contributed to a 45 percent improvement in food security among the vulnerable population. By September 2005, NovoBanco, a private microenterprise and financial services bank created by the alliance, had disbursed more than $3 million in loans averaging $5,000 to more than 800 borrowers (half of them women), with a 98 percent repayment rate.

FUNDING ARRANGEMENT
Chevron Corporation: $10 million

U.S. Agency for International Development: $10 million



Solomay Epouca is no stranger to poverty, having raised eight children in the former rebel stronghold of Huambo, Angola, while the 27-year civil war raged about her. Looking back, she counts herself blessed to be among the few who did not lose a family member to the devastation. But she and her children were among millions of Angolans at risk of starvation and malnutrition because of war.

After the 2002 peace accord, most of Angola lay in ruins. A net exporter of food before the conflict, the country could not provide food for its own people following years of violent fighting. A hundred thousand combatants (with a total of 350,000 dependents) lost their jobs and could not return to destroyed farms. Of more than four million internally displaced, many had collected in cities and were dependent on food aid, too fearful to return to their home villages.

Epouca's was one of more than 58,000 families in Huambo that benefited from a U.S. Agency for International Development (USAID) program to encourage the displaced to move back to their home villages, where additional assistance was available to reduce food insecurity and build self-reliance. She received more than 300 pounds of food, 30 pounds of seeds, and basic tools such as watering buckets.

Sitting on a pile of bean husks, her three-year-old daughter on her lap, Epouca says, "Things are better now. If we can have two successful harvests, I will be able to sell some food and buy some clothes. All we need is a little extra food and seeds so we can become strong and self-sufficient." When asked about the difference humanitarian assistance makes in her life, and how it has provided hope for the future, she says, "I don't have to think about what I will feed my children. Instead, I can think about my children going to school and learning things I don't know."

USAID's efforts to speed Angola's return to normalcy are significantly aided by Chevron Corporation—for decades Angola's biggest oil producer and investor. For its contribution, Chevron Corporation won USAID's Global Development Alliance Excellence Award for 2004.

BUILDING THE ALLIANCE—IDENTIFYING COMPLEMENTARY GOALS

In 2002, the war at an end, the government of Angola turned its attention to rebuilding the country. A generation of Angolans would be able to restart their lives.

Chevron also found itself in a position of self-reflection. Its local and wholly owned subsidiary, Cabinda Gulf Oil Company (CABGOC), had been active in social and economic investments for decades, but had not effectively broadened its impact beyond the regions where it operated.[1] The end of the civil war offered new opportunities to pursue long-term development in its offshore oil concessions and consider how its presence in the country might contribute to reconstruction and development.

It was in this context that Angolan president José Eduardo dos Santos, in a public forum, asked Chevron chairman and CEO Dave O'Reilly to help the country rebuild. O'Reilly responded by creating the Angola Partnership Initiative, a five-year commitment to work in alliance with major donors and nongovernmental organizations (NGOs).

In June 2002, Chevron officials, including Vice Chairman Peter Robertson, met with representatives from several USAID operating units, including the Global Development Alliance (GDA), Africa Bureau/Southern Africa, USAID/Angola, Office of Foreign Disaster Assistance, and Food for Peace. Chevron explained that its chairman was ready to commit $25 million over five years to build a legacy of lasting development in Angola. The company was interested in building on USAID's projects in the country to extend its own social investments to additional regions. Chevron officials also expressed an interest in building human capacity and developing small, micro, and medium enterprises in support of the company's internal mandate to hire more Angolans and increase local procurement of supplies.

USAID welcomed the opportunity to engage Chevron Corporation as a joint participant in the agency's development agenda for the country. USAID staff briefed Chevron on the agency's country programs and development capabilities and offered preliminary ideas for funding by the company, such as resettlement activities and support for rebuilding rural infrastructure.

The next meeting, in September 2002, included other donors—among them the United Nations Development Programme and the United Nations Foundation. Chevron's representatives summarized the company's corporate presence in Angola and offered initial thoughts on a potential alliance. To institute a framework from which a full alliance could develop, Chevron proposed a working group of representatives from all parties to forge an arrangement "where individual strengths can be leveraged to make a sustainable contribution to social and economic growth."

At this meeting, Chevron raised the possibility of establishing a joint foundation to endow mutually designed and implemented programs. The firm had done something similar in Papua New Guinea. But the agency's experience with pooled funding mechanisms had shown them to be time-consuming and labor-intensive. If the process of establishing the requisite governance structures were not sufficiently daunting, congressional restrictions on USAID's ability to create endowed funding mechanisms added an unacceptable level of risk to the enterprise. Furthermore, such an arrangement might prove in some ways duplicative of the Southern Africa Enterprise Development Fund, a $100 million capitalization fund for small and medium-sized businesses in the region.

Instead, the mission presented its framework for humanitarian relief and agribusiness development as a ready-made menu of options that could be activated quickly. According to Stuart Brooks, a retired official of Britain's Department for International Development who joined Chevron to help the company assess geopolitical risk associated with its global presence, it was also the most compelling course of action: "When you see thousands of people around you at risk of starvation, it establishes priorities very quickly, and those priorities were also USAID's priorities."

The resulting memorandum of understanding (MOU) was negotiated between USAID-Washington and Chevron corporate headquarters. It outlined several activities:

- Expansion of finance and business development services to small and medium enterprises in the target provinces
- Support to NGOs providing savings and credit products
- Technical assistance to commercial banks providing wholesale lending to rural financial institutions
- Support for private sector–based agricultural initiatives
- Support for professional training and education in finance, business planning, product development, and marketing to improve commercial viability of small and medium enterprises in the agricultural sector

ROLES OF THE MEMBERS OF THE ANGOLA ENTERPRISE DEVELOPMENT ALLIANCE

- Chevron Corporation initiated the alliance, provided half the funding, and participates in oversight and program design.
- The U.S. Agency for International Development provides in-country expertise, development planning, implementation, and management; USAID matched the funding offered by Chevron Corporation.

- Support for short-term educational programs for small and medium enterprises in the design and development of agriculture infrastructure projects.

Because the alliance did not use an endowment and Chevron Corporation did not have the capacity at the time to program and manage development activities, the company decided to invest $10 million directly with USAID, using the agency's gift authority.[2] This move allowed Chevron to jointly plan activities through the advisory committee established under the MOU, while freeing itself of programming and management functions.

It was not the first time USAID had received money from a corporate partner, but the $10 million commitment was unprecedented in scope and dollar value relative to the Angola mission's usual programming budget.[3] Robert Hellyer, mission director at the time, reported the experience at the next mission directors' conference, informing a roomful of surprised and suddenly curious colleagues that the mission had just engaged a major corporate partner and significantly expanded its budget.

At USAID headquarters, the GDA program, which was just getting started, faced the challenge of shepherding a significant new alliance. GDA staff wondered whether the federal Office of Management and Budget would score the Chevron contribution to the alliance as on offset against the overall USAID budget. The answer was negative: the U.S. government could accept the help of its constituent citizens, organizations, and businesses in executing its mission.

As USAID and Chevron evaluated and agreed upon projects, the agency accepted gifts of $4 million, $1.8 million, and $1.4 million in fiscal years 2003 to 2005.

FIRST-GENERATION PARTNERSHIP

The collaboration points outlined in the MOU became these discrete mission activities:

Development relief (Chevron $4.8 million; USAID $4 million). The development relief program helps returned combatants develop small and medium-sized agricultural businesses through the formation of more than 150 farming cooperatives. It includes land preparation, rural infrastructure development, seed production and multiplication, harvest protection, crop diversification, technology transfer, establishment of farmer associations, creation of credit programs for seeds and tools, and development of market linkages. Implementing partners are Africare, Catholic Relief Services, CARE, Save the Children, and World Vision. They have committed significant resources to the initiative.

Microfinance (Chevron $1 million; USAID $1 million). This component of the alliance has established a private bank, NovoBanco, to support the creation and expansion of micro, small, and medium-sized enterprises. In its first year, NovoBanco disbursed $2.5 million in micro- and small-business loans and opened 5,000 savings accounts worth $1 million.

Enterprise Development Center (Chevron $100,000; USAID $100,000). The new Enterprise Development Center is an independent economic policy and business development hub at an Angolan university. It will provide access to continuing education and professional training. The implementing partner is the Angola Educational Assistance Fund.

Seed multiplication (Chevron $2 million; USAID $2 million). The seed-multiplication component of the alliance supplies agricultural extension services and technical assistance in modern agricultural practices. The implementing agency is World Vision.

Agricultural extension and research (Chevron $1.2 million; USAID $1.2 million). This component is designed to strengthen an agricultural research center and conduct field trials with farmers. The implementing agency is World Vision.

A CONFLICT OF INTEREST?

The U.S. Agency for International Development (USAID) was working with several nongovernmental organizations to rebuild Angola when it engaged Chevron Corporation as a new resource partner and formed an alliance with the company. While most of the agency's partners were not affected by the move, it did present a problem for Catholic Relief Services, which chose not to accept corporate money. The organization concluded that accepting the money could present a conflict of interest in view of its support of the U.K.–based Publish What You Pay movement, which strives to reduce corruption by encouraging companies to make public all payments made to host governments. Wishing to remain involved with USAID in Angola, however, the organization chose to substitute Chevron's intended contribution with its own fundraising (totaling $700,000).

The example demonstrates that alliance builders must not overlook issues such as due diligence and conflict of interest.

Dennis Flemming, director of the Angola Partnership Initiative for Chevron, sees the positives. "Some of the best discussions I've had about the transparency issue have been with the country director of CRS," he said. "They have their position and we have ours, and we get lots of chances to talk about it. If we weren't involved in the resettlement program, we probably wouldn't have had as many opportunities to do so in a neutral forum."

CREATING A PARTNERSHIP THAT WORKS

If Chevron, through association with USAID, saw the need to move resources into immediate humanitarian relief and resettlement, Chevron's focus on enterprise development also influenced the USAID mission. The sudden presence of a for-profit partner brought challenges, however, as Chevron's interests and the mission's priorities were not in perfect synchronization.

USAID/Angola's strategic plan for 2001 to 2005 established four objectives to distribute about $11 million per year in development assistance: food security, democracy and governance, health, and a special objective covering economic policy analysis.[4] (The last objective pertained mostly to negotiations over a pending International Monetary Fund macroeconomic stabilization agreement.)

Collaboration with Chevron changed the situation. In an action memorandum to USAID's Africa Bureau in Washington, mission director Robert Hellyer reported that "through the Enterprise Development Alliance, Chevron Corporation, the largest private sector presence in Angola, has effectively challenged USAID to accelerate its assistance and to address issues such as developing local private sector capacity sooner than might otherwise have been the case given severely limited USAID funding for economic growth programs."

The action memorandum laid out the terms for extending the mission's effort to promote micro, small, and medium-sized business in Angola for two years to coincide with Chevron's planned investments through 2007. Success would be measured in terms of registrations of new enterprises, increases in local business subcontracts, and loans to firms in different business sectors. It was under this special objective that the mission moved forward with a planned enterprise bank, NovoBanco, in 2004.

USAID had presented its plans to Chevron and started the alliance with a speed that Chevron chairman Dave O'Reilly later noted was faster than the performance of some of his own business units. Chevron, in turn, compelled USAID to accelerate its plans for economic development. Although the partners' alacrity in developing the alliance caused some bumps, the alliance has brought clear benefits for both partners and improved assistance for Angola.

MANAGING THE ALLIANCE

The USAID–Chevron MOU called for an advisory committee to jointly plan activities and serve as a governance structure to assist in shared functions such as knowledge dissemination, alliance monitoring, communications outreach, and conflict resolution. In fact, project planning was more informal, usually occurring in meetings convened by the mission to respond to sudden opportunities in the development landscape.

USAID had developed a strategic framework establishing a formal framework and plan for collaboration, but that framework was never taken up, for several reasons. One was Chevron's decision, in mid-2003, to transfer ownership of the alliance from the company's headquarters to its southern Africa and country business units. The transfer entailed a waiting period, while Chevron reviewed its strategic direction and revised its plans before advancing the alliance beyond the original funding commitments. On the USAID side, the mission's preparations for a new strategic framework after 2005, along with other institutional demands, caused USAID to step back from the alliance at times to concentrate on other activities.

It was not until June 2004 that Chevron and USAID began collaborating more substantively. Chevron took the lead, convening a stakeholder workshop. Presentations from both sides laid out the partners' respective operational culture and organizational values in order to identify commonalities and mitigate any possible misunderstandings; at the same time, there was great interest in identifying the comparative advantages of each partner.

Flemming, who took ownership of the relationship at Chevron as it shifted to the field, explains that much of the value of partnership is relational. "For a company, a big part of the business value in supporting development initiatives is in the engagement itself. Getting to know donors and NGOs and understanding what challenges and issues they're facing… serves everyone's interests." He adds:

We're engaging [through the alliance] with government ministries that we don't normally have anything to do with. We've got a very strong relationship now with the ministers of agriculture and health. This may not have anything to do with our operations in the field, but it has a big impact on our workforce, which is increasingly Angolan. It has a big impact on the commercial environment we're operating in. There is a lot of value in these partnerships, and it's important to capture those benefits. That's why these workshops and meetings [which allow us] to take a step back and look at the partnership are so valuable.

USAID and Chevron have since had several stakeholder consultations to continue building the relationship as it enters its second generation. The clear lesson for alliance partners is to remain patient and flexible in relationship management, and take time to take stock.

SECOND-GENERATION PARTNERSHIP

Dennis Flemming arrived in Angola in 2004, after overseeing Chevron's social investments in Papua New Guinea for several years. He left behind in Papua New Guinea a record of trust and a corporate foundation that exists today, with several funders. What he inherited when he moved to Angola to work on the alliance was a massive partnership nearing the end of its first stage that needed to be retooled if it was to enjoy a healthy second stage. Most of Chevron's $10 million had been spent, but the question of how to continue with collaboration remained. The initial alliance experience had generated a number of lessons that could inform the development of its second stage.

Chevron raised several issues with USAID that reflected an understanding of the development challenges in Angola. For one, the programs funded by the alliance were not needed. The USAID mission's geographic focus on war-torn regions constrained Chevron's intention to achieve social investments with national impact. The overhead charged by USAID's traditional implementing partners was high, and many local NGOs and non-U.S. consultants that had not previously worked for USAID had difficulty qualifying for funding. This last constraint was especially relevant to Chevron, which had hoped the alliance might build local capacity in the NGO and small business sector. But Chevron also recognized that there was nothing structurally wrong with the collaboration. The alliance simply needed to be more fully aligned with the stated intentions and values of each partner. Reports Flemming:

We knew we wanted to go to a second phase, but recognized that we wanted to do it a bit differently. Partly because of my own background in development and experience in Papua New Guinea, I wanted us to be a more active partner. I didn't want to just sit back and respond to project proposals. I wanted us to work jointly on going out for RFAs [requests for applications] and jointly selecting the implementing organizations, and being partners all the way.

USAID and Chevron are currently developing a joint vision for shared programs that will become a second-generation partnership. One possibility may be an approach to development through a different strategic lens: a community development and capacity-building initiative focusing on development at all levels of government—local, regional, and federal. Such a framework still concentrates on enterprise and agricultural development, but it also embraces municipal and regional governments as potentially more active partners. Such an approach meshes well with USAID's increased emphasis on good governance and the rule of law as prerequisites for sustainable development.

The mechanics of a new partnership may also shift: whereas in the first-generation partnership Chevron left programming and management duties to USAID, the company now has the organizational capacity to manage and implement initiatives on its own, thus increasing options available to the next partnership.

CONCLUSION

Whatever the future holds for one of USAID's most visible partnerships, it remains in several ways the standard for business, government, and NGO engagement. By enlisting USAID's development expertise, Chevron added new capabilities to its social investment efforts. Chevron also strengthened its brand reputation and stakeholder relations. Speaking from his experience with the Enterprise Development Alliance, Chevron chairman O'Reilly reflects that "partnerships can also break down barriers that are caused when government, businesses, and communities simply do not speak each other's language or, at worst, distrust one another."

Chevron's increased focus on good governance and proper stewardship of oil revenues is already evident. In 2004, Angola awarded Chevron a 20-year extension of its Block 0 concession—2,000 square miles of ocean that anchor Angola's oil production. At Chevron's urging, Sonangol, Angola's national oil company, published the amount of its signing bonus: $210 million. A social bonus of $80 million was earmarked for development projects, and a portion of that reserved for the Cabinda region. In announcing the extension, a Sonangol official stated: "The government of Angola understands that good governance is a cornerstone of good business, and that it is in our own interest to make progress in this important area."

The alliance also demonstrates that corporate partners can make long-term commitments with timelines that often exceed those of donors.

1. Investments totaling more than $22 million in the last five years alone include annual support for the Cabinda General Hospital Blood Bank, funding local health programs for HIV/AIDS and malaria prevention, constructing primary and secondary schools and health centers, and sponsoring Angolan students and employees to universities on scholarship.
2. ADS 628(d). See *Tools for Alliance Builders*, appendix 13, available in PDF format at http://www.usaid.gov/our_work/global_partnerships/gda/tab.html.
3. In addition to the usual programming budget, USAID was authorizing large grants for food security and famine prevention through the Food For Peace account: more than $100 million in 2003 and $70 million in 2004.
4. As noted, this does not include the Food For Peace account.

SIERRA LEONE PEACE DIAMONDS ALLIANCE
REBUILDING AFTER WAR

PURPOSE

To create a transparent, fair, and safe alluvial diamond market that delivers equitable and sustainable benefits to local miners, diggers, and the extended local community in Sierra Leone.

CONTEXT

The illicit diamond trade in Sierra Leone has fueled civil war, money laundering, and possibly terrorist activities. It also limits legitimate foreign investment in the diamond sector that might raise the living standards of the hundreds of thousands of Sierra Leone's small-scale diamond miners.

ALLIANCE MEMBERS

Government of Sierra Leone

U.S. Agency for International Development

U.K. Department for International Development

World Bank Communities and Small Scale Mining Project

Global Witness

Koidu Holdings

The Rapaport Group

The DeBeers Group

Kono's Hope

Management Systems International

ACCOMPLISHMENTS AND OUTCOMES

Since its founding, the alliance has expanded from the Kono to Tongo diamond fields and trained more than 200 diggers and miners in small-stone identification and valuation. Stakeholder workshops address issues of local concern; persistent issues are resolved through arbitration. Government funds have been successfully leveraged to rehabilitate mined-out land in Koidu, Kono District.

FUNDING ARRANGEMENT

U.S. Agency for International Development: $4.2 million

Department for International Development: $40,000 for partnership housing facility

Rapaport and Kono's Hope: $75,000 to support five pilot cooperatives for one mining season

World Bank Communities and Small-Scale Mining Project: $47,500 to sponsor field visits and stakeholder consultations in Canada, Sri Lanka, Ghana, and Brazil

Government of Sierra Leone: $50,000 for Kaisambo Rehabilitation Project

A long-term USAID partner engages a major diamond buyer to support the Kimberley Process through fair-trade diamond certification.

The Peace Diamonds Alliance is a collection of stakeholders abiding by a code of conduct for sustainable community and economic development, environmental stewardship of existing mines, and reclamation of mined-out landscapes. A catalyst for change, the alliance began as a foray into uncertain terrain in the immediate aftermath of war. In 1999, near the end of the country's brutal civil war, Sierra Leone's diamond resources were worth an estimated $300 million a year—of that, legal diamond exports made up only $1.5 million. The rest was smuggled out of the country through illegal channels. None of the benefits of the illegal trade reached the government of Sierra Leone or its people.

Revenues from diamond sales now flow through more formal channels within Sierra Leone, helping one of the world's poorest countries rebuild from war. Legal exports of diamonds climbed to $42 million in 2002, $70 million in 2003, and $127 million in 2004. They are projected to reach $150 million for 2005. Even better, local mining communities benefit by receiving a portion of the tax revenues from the increase in diamond exports, with funds specifically allocated through the Diamond Areas Community Development Fund (DACDF) to build public structures, markets, and schools. Proceeds to mining communities exceeded $300,000 in 2002, $500,000 in 2003, and $900,000 in 2004.

WINNING THE PEACE

In January 2000, following the Lomé Peace Accord signed the previous year, a technical advisor for Management Systems International (MSI), a longtime implementing partner of the U.S. Agency for International Development (USAID), entered Sierra Leone on behalf of the USAID Office of Transition Initiatives. MSI had received an order to identify immediate opportunities to set the country's mineral wealth to productive use through the national-level Strategic Minerals Commission. The purpose of the task was to support a fragile peace in a highly uncertain environment that could return to volatility and war at any moment. USAID and its partners worked from the ground up with participants at every level of the diamond supply chain: from the laborers who spent their days digging in pits, through the miners who typically managed a group of laborers through a usufruct over a given site, to holders of land titles and licenses to mine diamonds, who sold to licensed exporters—the final tier of the in-country supply chain.

USAID soon identified an ideal focus for stabilization efforts: the diamond-rich Kono District, where, during the civil war, the Revolutionary United Front had used illegally mined diamonds to fund its rebellion through the global sale of what came to be known as "conflict" or "blood" diamonds. Kono could become a source of legitimate jobs and income for citizens and tax receipts for the government, rather than a haven for illegal mining.

Partners also met with representatives of international diamond buyers, such as DeBeers and Rapaport. The challenges of developing a partnership immediately became evident. In a first meeting in June 2002, a DeBeers representative made it clear that the company would not commit to buying diamonds from specific suppliers; they would market only their own production. This was a completely rational business decision for DeBeers, but it highlighted the difficulties inherent in the formation of an alliance. DeBeers exercised control over a significant portion of global diamond supply and had little incentive to support what it could only see as a competing producer. Martin Rapaport of the Rapaport Group showed guarded interest in the prospect of working more closely with USAID.

At the same time, DeBeers affirmed its support of efforts to legalize Sierra Leone's diamond sourcing and to see that the supply chain delivered more value to laborers and miners. One sign of that support was an offer to provide technical assistance on diamond valuation to the Sierra Leone Department of Mineral Resources. At the same time DeBeers's support of USAID's efforts to legalize the diamond trade added credibility to MSI's work in the eyes of industry players, and gave USAID access to DeBeers's industry expertise in developing the skills of diggers and miners.

Efforts in Sierra Leone were supported by a series of international consultations addressing the issue of the illicit diamond trade, organized by members of the diamond industry, governments, and civil society organizations. The first gathering was held in Kimberley, South Africa—where diamonds were discovered 140 years ago. This "Kimberley Process," formally launched in January 2003, articulated a system for managing and certifying international trade in rough diamonds. The Kimberley Process Certification Scheme was a voluntary initiative that brought together more than 40 governments and the European Commission to reform diamond laws and regulations in order to track diamonds sold internationally.

By this time, the funding from the USAID Office of Transition Initiatives for diamond-sector management under the peace accords had expired, but new diamond-sector management funds supporting the Kimberley Process were committed in 2002. With fresh resources, USAID took its first major step toward realizing a vision of the Kimberley Process principles to support sustainable living conditions for the first links in the supply chain: the diggers and miners who labored, often under poor conditions, in hopes of making a big find.

USAID's efforts came to fruition in December 2002, when producers, buyers, advocates, officials of the Sierra Leone government, and heavyweight industry players, such as DeBeers and Rapaport, gathered to form the Peace Diamonds Alliance. Sierra Leone President Ahmad Tejan Kabbah formally launched the alliance in 2003.

FROM KIMBERLEY PROCESS TO PEACE DIAMONDS

The Kimberley Process is recognized for greatly increasing legal exports of diamonds, although issues of implementation remain to be addressed. But the process does not reach below the level of international tender. In Sierra Leone, as in Angola and the Democratic Republic of Congo, a million or more artisanal miners exist outside the formal sector and still see little of the income generated by the diamonds they find.

The Peace Diamonds Alliance seeks to change that through an integrated approach to diamond management: developing competitive buying schemes, training miners to recognize the value of their products, tracking diamonds from earth to export, providing credit to miners, and ensuring that communities benefit from the mining that takes place in their localities.

The alliance's voluntary code of conduct for Sierra Leone connects the principles of the Kimberly safeguards at international tender with the more involved process of getting diamonds to market. This "Earth to Export" chain of the artisanal diamond market delivers higher income for producers and introduces environmental, health, and safety protections for laborers. It is hoped that the code of conduct will one day evolve into a formal certification scheme for the country.

At the national level, the alliance tackles policy and regulatory bottlenecks to encourage the government to continue reforms in the diamond sector. In partnership with government, other donors, and the international community, a high-level steering committee chaired by the Ministry of Finance studies policy initiatives that affect the diamond sector. USAID provides secretarial services for the steering committee.

OUTCOMES

The alliance has leveraged funds on favorable credit terms from Kono's Hope, a small investment firm based in South Carolina, and from the Rapaport Group. These investors sponsor five mining cooperatives—for one mining season—in the hope of developing a brand of fair-trade diamonds that will carve out a market niche beneficial both to the investors and to the mining cooperatives of Kono. In accordance with the alliance's code of conduct, the cooperatives apply environmentally friendly mining methods and reclaim the land at the end of each mining season.

The alliance has trained 209 individuals on basic small-stone identification and valuation and has made valuation equipment and the services of the government valuation officer available to small-scale miners without charge. Joseph Sembo Kabia, a mines monitoring officer from the Ministry of Mines for Kono District, remarked at his first small-diamond training session, "The valuation of diamonds was always viewed as a secret skill owned by non-Sierra Leoneans. The veil of mystery is only now being lifted." Efforts are underway to build a cadre of trainers and an association of master trainers.

The alliance periodically holds stakeholder workshops on issues of local concern. Typical agenda items include the cost of obtaining mining licenses and problems with local mining firms. These meetings are also used to publish licensing fees, diamond revenues, and returns to various communities, as well as to convey community concerns to the government. The alliance, in collaboration with the local office of the Ministry of Mineral Resources, has mediated some potentially violent conflicts between affected property owners and a mining company that is also an alliance member. The alliance is also party to the management and use of the DACDF to maximize community benefit. Advocacy and awareness efforts, for example, succeeded in leveraging funds to rehabilitate a perennially mined-out land in the Kono District.

THE URBAN DEVELOPMENT ALLIANCE
IMPROVING SERVICE DELIVERY THROUGH PARTNERSHIP

PURPOSE

To adapt the Soviet-era practice of corporate investment in communities to post-Soviet realities. The Siberian-Urals Aluminum Company (SUAL), one of Russia's largest companies, has traditionally supported civic needs in the communities where it has factories, from towns of ten thousand people to cities of a quarter million. Its alliance with USAID extends that tradition.

The goal of the Urban Development Alliance is the sustainability of numerous civic projects. A pilot program in three locations focuses on improving municipal planning and governance, supporting enterprise development, modernizing healthcare, and strengthening civil society.

CONTEXT

Since the demise of the Soviet Union in 1989, the quality of life in most of Russia's industrial towns has suffered. Under the Soviet system, large state-owned companies were the key providers of many social services. Privatized and downsized, companies are seeking new ways to support their communities. With little support from the central government, local governments have few resources and capabilities to provide citizens with adequate social infrastructure.

ALLIANCE MEMBERS

U.S. Agency for International Development

Siberian-Urals Aluminum Company

The Barents Secretariat

Local implementing partners

FUNDING ARRANGEMENT

U.S. Agency for International Development:
$1,000,000

Siberian-Urals Aluminum Company:
$1,250,000

The Siberian-Urals Aluminum Company builds an alliance with the U.S. Agency for International Development, foundations, and local organizations to expand and sustain community-based programs to improve health, education, enterprise development, and government services.

After the Soviet Union dissolved in 1989, the Soviet system of subsidized state-owned enterprises began to fall apart. Those enterprises had been a key source of housing, education, healthcare, and other social services for employees and their families. As they were closed or privatized, the quality of life in industrial towns throughout Russia declined. With little support from the central government, local governments have struggled to provide citizens with social services.

After years of adjustment, however, the Russian economy is growing, creating new sources of support for municipal services. Companies still provide some of that support; additional support comes from a variety of new sources. Still, local capacity for using the money and running social programs is lacking.

The Siberian-Urals Aluminum Company (SUAL) and the U.S. Agency for International Development (USAID) are taking a creative approach to building local capacity. Their Urban Development Alliance is a public–private alliance aimed at encouraging civic activism in small towns where SUAL is the main industry. An example: In April 2005 the alliance sponsored a "Week of Good Deeds" in the town of Shelekhov in the territory of Irkutsk. The events, organized by local activists, included a town clean-up project, an anti-drug campaign, free legal and psychological consultations, and fundraising activities for local charities. Initially, the local administration did not support the week's events, but officials were so impressed with the results that they have now contributed funds for future community development project grants. The organizers of the "Week of Good Deeds" have raised money from local businesses and other donors to continue civic activities in Shelekhov.

GENESIS OF THE ALLIANCE

With 62,000 employees and operations in nine regions of Russia, SUAL is one of Russia's largest companies; many cities and towns depend on the company for jobs. In 2003, SUAL approached USAID with an idea to help rebuild the local economy in those communities in a sustainable way. A precedent had already been established: SUAL and the Eurasia Foundation, a frequent partner of USAID, had worked together on a project to develop small and medium enterprise. What started with a $13,000 contract eventually brought in $1,000,000 for three locales in the Ural region of Siberia. SUAL's vice-president for regional government affairs wanted to build on that experience in a comprehensive way.

For USAID's mission in Russia, SUAL's idea was an opportunity to leverage the corporate expertise and extensive geographic reach of SUAL's holdings. By programming its resources in coordination with SUAL's social investments, USAID could accelerate the accomplishment of the mission's country objectives.

Ensuing discussions established that both parties were interested in improving the quality of life in cities. The partners studied opportunities to promote growth, expand credit, improve government services, and develop local capacity. They also reviewed the basic impediments to business and came up with some straightforward solutions. The most promising sites would participate in an economic development program that included:

- Improving the environment for enterprise development
- Working with local banks and investors to fund a microcredit facility
- Providing technical assistance and training for local government to bring transparency and integrity to business licensing, permitting, and tax collection
- Streamlining the permit process
- Establishing local capacity to sustain improvements.

The ultimate goal of the program was to increase local revenues and resources for education, health, and other social sector programs.

After three months of talks, the idea evolved, in 2004, into the Urban Development Alliance. It began with $300,000 from USAID-Russia, $700,000 from the Global Development Alliance (GDA), and $1.25 million from SUAL. SUAL's contribution was linked with USAID work in areas where SUAL had a workforce. The soundness of the idea attracted interest and additional participation.

AN AMBITIOUS PILOT CHARTS A COURSE

The partners decided to pilot a joint approach to local development in three cities — one large, one small, one in between — where SUAL had a presence and would continue to invest in the community. The alliance also looked for sites that would generate results adaptable to other locations. Because SUAL had purchased many preexisting industrial facilities and inherited some unfortunate environmental and public health problems, these factors were considered in the selection of the pilot sites.[1] The pilot sites are:

Kamensk-Uralsky. Lying in the Ural mountain range southeast of Yekaterinburg, this city of 180,000 is the largest in central Russia. The Kamensk-Uralsky Metallurgical Plant is SUAL's largest (and Russia's second-largest) producer of products for the automobile, aviation, and aerospace industries. The plant was built in 1943, with American assistance, to produce high-strength aluminum alloys for naval and aviation purposes. Through 1990, it depended on military contracts. The subsequent reduction in military spending resulted in lower production. The plant has now adapted to meet new demand by producing state-of-the-art automotive, aviation, and prefabricated building products.

Shelekhov is a relatively new city in southern Irkutsk, about five time zones from Moscow. Originally settled in 1956 by 13,000 people who came to work in aluminum production, the city currently has a population of about 53,000. It now has some additional industries as well, such as building materials, clothing, woodworking, and mechanical repair.

Nadvoitsy is a factory town of 11,000 in the Republic of Karelia, between St. Petersburg and Murmansk near the border with Finland. The Nadvoitsy Aluminum Smelter began producing aluminum and aluminum powder in 1954. Today the plant is refitting with cleaner production technologies, such as a gas scrubbing system that will cut emissions by as much as 50 percent and begin repairing the significant environmental damage typical of Soviet-era industry.

In all three sites, the pilot project is:

- Strengthening municipal governance, fiscal systems, and budget planning with provincial and national counterparts
- Improving the business climate for small and medium sized enterprises by simplifying the issuance of business licenses, adding courses in economics and business to school curricula, and other measures
- Establishing community foundations
- Supporting civic initiatives that promote citizen participation in local decision-making, environmental stewardship, healthier lifestyles, and community and individual ownership of their own development
- Improving maternal and child health by creating systems that protect child welfare and prevent undue institutionalization.

This far-flung alliance is managed in a couple of ways. Within SUAL, a dedicated task force is headed by the company's vice-president for government affairs. At the implementation level, SUAL's aluminum production units in the pilot cities work directly with USAID and partners. USAID's task force is coordinated from the program office, while members of the teams responsible for each of the alliance's strategic objectives — health, democracy and governance, environment, and economic growth — gather regularly to discuss progress. In each pilot city, mayors lead "working groups for change" to coordinate alliance-funded efforts and contribute to their sustainability. Through mayoral leadership, local officials monitor and support implementation of all activities, ensure buy-in from local institutions, remove potential obstacles to proper management, and provide logistical support when feasible.

IMPACT

In the area of local governance, a needs assessment has been completed for each of the city implementation plans that the alliance developed in consultation with stakeholders. The alliance is also evaluating the pilot projects and their programs in health, economic growth, enterprise development, governance, civil society, and environmental protection. The results of the evaluation will shape the expansion of the alliance to other locations in Russia. SUAL has indicated that it will invest about $2 million next year to implement alliance activities in the other cities where the company operates.

USAID planned for sustainability from the very beginning of the relationship, including SUAL's expected adaptation, at its own expense, of program successes to 20 other cities where it had a major presence. USAID, for its part, intends to apply the lessons of the collaboration to future partnerships with other Russian corporations.

Additional corporations and organizations have already expressed interest in either joining or replicating the USAID–SUAL model:

- Russia's biggest producer of mineral fertilizers intends to replicate the Urban Development Alliance in their cities. It has suggested a first pilot in the North Caucasus region.
- A major auditing company is negotiating with USAID to use the alliance model to develop client reporting standards and systems related to environmental and social investments. Through better reporting, companies can improve their chances of attracting foreign investment.
- Russia's biggest milk and juice producer will provide resources to support environ-

mental and health components of the Urban Development Alliance, while other businesses in the pilot cities are negotiating with SUAL about coinvesting in their efforts.

- The Center for Fiscal Policy, a Russian nongovernmental organization that focuses on budget reform, has begun working with the alliance to strengthen the capacity of local governments to address social issues and to increase the quality of budget services by facilitating the establishment of public–private partnerships, assisting municipalities to implement the recently adopted law on local self-governance, and enhancing the professional qualifications of financial department staffers working in regional and municipal administrations.

The Urban Development Alliance, originally planned as a $300,000 investment from each partner, has quickly grown with resources from the GDA incentive fund, a planned $4 million commitment by USAID's Russia mission, $2 million from SUAL, and investments expected from other companies in 2006.

For SUAL, the alliance leverages additional expertise and cash resources for its own social investments in the communities where its workforce resides. For USAID, the alliance leverages the unique Russian brand of corporate social responsibility and provides a mechanism by which the mission can transfer some of its functions to in-country partners—both public and private.

Overall, the Urban Development Alliance represents best practice in establishing strategic relationships with in-country resource partners that help advance USAID strategic objectives. The alliance is also a model of public–private cooperation that develops the capacity of USAID's partners to carry on the USAID legacy once Russia no longer requires development assistance.

1. The Siberian-Urals Aluminum company (SUAL) was established in 1996 as a result of a merger of the Urals and Irkutsk Aluminum Plants. SUAL controls the South Urals Bauxite Mine, the Bauxite Timana company, and the SUAL-Silicon-Urals and Kremny facilities in Irkutsk.